

VZCZCXRO7858  
RR RUEH DU RUEHJO RUEHMR RUEHRN  
DE RUEHSA #2860/01 1941301  
ZNR UUUUU ZZH  
R 131301Z JUL 06  
FM AMEMBASSY PRETORIA  
TO RUEHC/SECSTATE WASHDC 4533  
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
RUCPCIM/CIMS NTDB WASHDC  
RUCPDC/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 04 PRETORIA 002860

SIPDIS

SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA  
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND  
TREASURY FOR OAISA/RALYEA/CUSHMAN  
USTR FOR COLEMAN

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [EFIN](#) [ETRD](#) [BEXP](#) [KTDB](#) [PGOV](#) [SF](#)

SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER JULY 13 2006  
ISSUE

11. (U) Summary. Once every two weeks, Embassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- Government to simplify BEE codes;
  - Second telephone operator to start operations before end of 2006;
  - Business, consumer confidence falls in June;
  - Land Claims Commission pledges to settle all claims by 2008;
  - Manufacturing boosted by weak rand;
  - South Africa increases imports to avoid oil shocks;
  - House-price growth slows further;
  - Draft industrial policy targets poor provinces;
  - South African Airways profits fall 90%;
  - Labor Minister recognizes skills shortage, reaffirms labor laws for poverty relief;
  - Sasol explores Indian coal conversion plant
  - Turkey considers major purchase of SA helicopter; and;
  - Ecological concerns nix methane gas project.
- End Summary.

Government to simplify BEE codes  
-----

12. (U) Responding to criticism from business leaders, Minister of the Department of Trade and Industry (DTI) Mandisi Mpahlwa stated on July 11 that his department would seek to simplify its final Black Economic Empowerment (BEE) best-practice guidelines before their planned final presentation to Cabinet in August. In particular, Mpahlwa declared that DTI will reduce the number and complexity of constituent BEE indicators, drop many restrictive measures for small- to medium-sized businesses, not require foreign firms to sell equity if they meet other benchmarks, and craft regulations to avoid exacerbating the economy's skill shortage. BEE codes, published by the DTI, set requirements for companies to augment the economic power of previously disadvantaged groups. Codes include assessments of equity, employment, training, and authority for members of targeted groups. Sources: DTI press release, July 11; Business Day, Reuters, July 12.

Second telephone operator to start operations before end of year

-----  
13. (U) South Africa's SNO (Second National Operator) Telecommunications Ltd., whose shareholder's include Tata and state-owned logistics corporation Transnet, will challenge the fixed-line monopoly of former parastatal Telkom before the end of 2006, according to a recent press release. Increased competition in the sector could lower South African communications prices, which are among the world's highest. Source: Reuters, Finance 24, MarketWatch, June 5.

Business, consumer confidence fall in June  
-----

14. (U) The South African Chamber of Business (Sacob) Business Confidence Index declined from 101.4 in May to 99.4 in June, according to figures released on July 14. Sacob attributed the drop to South Africa's growing current account deficit, inflationary pressures, oil prices, and global investors' move away from emerging market assets in response to rising US interest rates. Sacob also warned, in the wake of a spate of high-profile attacks on police, that South Africa's high rate of violent crime damaged its appeal to investors. Consumer confidence remained near record high levels on the FNB/BER index released June 5, but it too declined from 21 in the first quarter of 2006 to 20 in the second quarter. The reports' authors did not consider the decline serious. Source: Mail & Guardian, July 4; Business Day, SABC, iAfrica, July 5.

Land Claims Commission pledges to settle all claims by 2008

PRETORIA 00002860 002 OF 004  
-----

15. (U) South Africa's Land Claims Commission (LCC), a body formed in 1995 to adjudicate the claims of those displaced by apartheid, declared on July 5 that it had resolved 89% of the claims brought before it and would close all remaining cases by 2008. The LCC has resolved 71,645 claims, most leading to financial compensation for the loss of urban properties. Most outstanding cases involve poorly-documented claims or are rural properties, which are more complicated cases due to the government's concern for maintaining agricultural output. Source: Business Day, SABC, July 5.

Manufacturing boosted by weak rand  
-----

16. (U) The Purchasing Managers Index (PMI) released by Stellenbosch University's Bureau for Economic Research (BER) showed that the manufacturing sector continued to expand in June. The PMI stood at 59.8 for June, an increase from May's 57.6, showing healthy growth in manufacturing, the second-largest sector of the South African economy. The PMI measures new orders, inventory, production, deliveries, and employment through a nationwide survey of purchasing managers. An index number of over 50 implies expansion; less than 50 shows contraction. Manufacturing growth quickened to 5.1% year-on-year in May from .1% in April according to a July 12 Statistics SA report. Seasonally adjusted, the output rose by 2%. Many analysts, however, expect this growth to recede through the rest of the year, as the SA Reserve Bank raised interest rates by 50 basis points on June 8 and is likely to impose 1-2 similar increases during 2006. Source: Business Day, July 4, 13.

South Africa increases imports to avoid fuel shocks  
-----

¶7. (U) Several major South African refineries will be taken offline over the next several months for routine maintenance, leading to a sharp increase in petroleum imports to avoid a shortage. Natural gas customers in Gauteng are already experiencing shortages, due to transportation bottlenecks between refineries and the inland population centers. The Sapref refinery in Durban, the country's largest refinery with a capacity of 180,000 barrels per day, is already offline for two months, with refineries operated by Sasol, Caltex, and Petrol SA to perform similar shutdowns in 2006. Oil imports are already a major part of South Africa's growing current account deficit. Source: Business Day, July 4.

#### House-price growth slows further

-----

¶8. (U) House prices continue to rise in South Africa, but the market growth should slow into 2007 according to the June Absa House Price Index. Nominal house-price growth is at a 4.5 year low after it cooled in June to an average 13.6% year-on-year from an average 14.3% in May. A report released by Standard Bank on July 12 further predicts that house-price growth will slow to zero by the end of 2006, though picking up again mid-2007. The South African Reserve Bank (SARB) raised interest rates by 50 basis points on June 8, the primary factor behind slower growth in the sector. Consumer debt and rising inflation are also significant contributors. Source: Business Day, June 6, 13.

#### Draft industrial policy targets poor provinces

-----

¶9. (U) Minister Mpahlwa of the Department of Trade and Industry (DTI) released a draft of his department's new Regional Industrial Development Strategy (RIDS) on July 10. The document outlines a national industrial development strategy for South Africa. RIDS includes a greater focus on integrating national development with local and regional growth strategies based on pre-existing industries and advantages instead of attempting to build sectors from scratch.

PRETORIA 00002860 003 OF 004

DTI hopes to bring development to citizens outside of Johannesburg, Cape Town, and Durban, the three major metropolitan areas that account for more than 65% of GDP. Mpahlwa cited an opportunity for the industrialization of former mining towns, which have a high concentration of unemployed people and well-developed industrial transportation infrastructure. Source: BuaNews, Engineering News, July 11.

#### South African Airways profits fall 90%

-----

¶10. (U) South African Airways (SAA), the country's state-owned flag carrier and the employer of 11,000, reported on July 6 that its net profits fell to R65 million (\$9.2 million) in the year ending March 2006 from R648 million (\$91.4 million) the year before. Although many of its troubles sprang from a week-long strike, higher oil prices, and a one-time R100 million (\$14 million) penalty for anticompetitive practices, SAA also fared poorly in competition with low-cost airlines. It lost 20% of its domestic market share to low-cost carriers last year. In response, the company announced several dramatic changes to its business plan. In the next 18 months, SAA hopes to cut R1.6 billion (\$226 million) from its budget, obtain government loans for a R3-4 billion (\$430-\$570 million) recapitalization project, and plans to launch its own no-frills brand. Sources: Business Day, Sunday Times, July 7; AirWise News, July 10.

Labor Minister recognizes skills shortages, reaffirms  
labor laws for poverty relief

-----

¶11. (U) Labor Minister Membathizi Mdladlana declared at a July 6 conference that government must focus on building the skills of workers as well as growing the economy, preparing citizens to take up jobs that will lift them out of poverty. Recently, the government granted energy giant Sasol permission to import thousands of skilled workers unavailable in South Africa, an incident Mdladlana used to illustrate that the country's 27% (official) unemployment coexists with a shortage of qualified workers in many key sectors. He further dismissed claims by some businesses that relatively rigid South African labor laws limit employment, saying that the government will maintain its commitment to a living wage and fair labor practices. Sources: Finance24, Mail & Guardian, July 7.

Sasol explores Indian coal conversion plant

-----

¶12. (U) The Indian government is working with South African energy giant Sasol to examine the feasibility of a \$6 billion coal-to-liquid (CTL) fuel plant in that country. The facility would produce roughly 80,000 barrels per day (bpd) from India's abundant coal reserves. Although India contains 7% of the world's coal reserves, it must import 70% of its petroleum. Even if Sasol and India ultimately proceed with the plant, it will not be operational for about 10 years. Sasol is a world leader in synthetic fuels, providing 40% of South Africa's liquid fuels with its CTL and proprietary gas-to liquid technology. The company recently opened a major new plant in Qatar and plans to expand into Nigeria and China. Sources: Business Standard, India, July 9; Business Day, July 11.

Turkey considers major purchase of SA helicopter

-----

¶13. (U) Turkey named Denel Aviation's CSH-2 Rooivalk armed reconnaissance helicopter as one of twoQraft under consideration for a major contract to equip its armed forces. The deal, worth about \$2 billion, could lead to the production of up to 91 helicopters and would be a major breakthrough for the South African aviation industry. Apart from a 12-helicopter purchase from the South African Air Force, the Rooivalk has not sold any craft since its mid-1990s introduction.

PRETORIA 00002860 004 OF 004

Last year, Denel lost R1.6 billion (\$226 million) and has asked the government for a R5.1 billion (\$719 million) recapitalization package. The other competitor for the Turkish contract is Italy's Mangusta A129 International. Source: Business Day, July 3; IOL, Herald Eastern Cape, July 4.

Ecological concerns nix methane gas project

-----

¶14. (U) Badimo Gas withdrew its application to nationalOil company PetroSA for the exploitation of the Tuli coal bed methane project. Coal bed exploitation threatened Mapungubwe National Park, a world heritage site and a significant draw for tourists. The proposal had drawn denunciation from local stakeholders and environmentalists. Badimo declared that it had been unaware of the potential effects on the park and withdrew its application on ecological grounds. Source: Financial Mail, June 23,

July 14.

TEITELBAUM